

E. CASE STUDY #4: BEVERLY HILLS SENIOR HOUSING AND RETAIL

General Description of the Project. This 131,000 square foot project was developed on a 1.5-acre site located on Crescent Avenue, two blocks north of Wilshire Boulevard, in the City of Beverly Hills

The Project Development Team. The project was developed by the Menorah Housing Foundation of the Jewish Federation Council and the City of Beverly Hills in 1987. Kamnitzer & Cotton was the project architect. The U.S. Department of Housing and Urban Development (HUD) and the City of Beverly Hills provided financing for the project.

Density and Building Height. The floor area ratio is 2.0 and the residential density is 100 units per acre. The building is four and five stories in height, due to a change in ground elevation.

Land Use Mix. The project consists of three uses: (1) 150 rent-restricted apartments for very low-income seniors and disabled persons; (2) a 26,000 s.f. food market; and (3) 877 public parking spaces for residents, patrons of the market and workers and shoppers in the surrounding area.

- *Retail Use.* The retail space has been occupied by Mrs. Gooch's Market, a prominent health food operation, since the time construction was completed.
- *Housing.* The apartment units are 540 square feet in size, except for three efficiency units that are 425 square feet.

Parking Requirements. The 877 parking spaces are on five levels, four of which are below grade. There are separate entrances to the parking for each use component. The city allowed a reduction in parking for the residential units, requiring 64 spaces for 151 units. The project was designed with three driveways: one for retail, one for public parking and one for residents. The parking areas were originally designed to be shared, but were then separated by fencing upon completion, at the request of the housing developer, who views this as essential for operations. The residents demanded exclusive parking for safety and operational purposes. The garage could not be secured and still allow 24-hour access for residents unless the residential parking was separated.

**Beverly Hills Senior
Housing and Public
Parking Garage**
SEC of Dayton
and Crescent
Beverly Hills, CA

Front view,
looking north



Front view,
looking northwest



Front view,
looking southwest



**Beverly Hills Senior
Housing and Public
Parking Garage**
SEC of Dayton
and Crescent
Beverly Hills, CA

Rear view,
looking north



Side and rear view,
looking south



Side view,
looking north



Entitlements Required. The site was rezoned by the City of Beverly Hills specifically to accommodate the development program, including replacing and adding public parking to serve local merchants as well as neighborhood-serving retail and housing for seniors, both of which were being driven out by escalating rents. Beverly Hills had a well-established practice of putting retail uses into the ground floor of public parking structures, and of allowing lower-than-market rents for those retailers. There was also a commitment on the part of the City to provide senior housing at a time of rapidly escalating market rents.

As a joint development on City-owned land, which achieved multiple City objectives, the approval process was relatively uncomplicated. The Environmental Impact Report on the project was, however, challenged in court by a private party, but it was eventually sustained.

Menorah Housing purchased the air rights above the deck and a parcel for residential parking and the ramp to it. The parking and parking ramp were separated from the rest of the premises through a parcel map. Menorah Housing owns the housing above the deck and owns the parking and the ramp to the parking that serves only the residents. The City of Beverly Hills owns the public and retail parking and the retail space.

Design Issues. A separate pedestrian identity was provided for each component, distinguishing the uses in order to provide identity and accommodate different hours and demands.

Building height was a big issue with this project. Large retail tenants typically want high floor-to-ceiling heights for ducts, infrastructure and openness. Smaller ones do not need the height. To accommodate the additional height needed by the retailers, but within a restricted overall project height limit, a mixed-use project can end up shortchanging the residential floor heights above. A typical 45-foot height limit for three stories of residential above retail is not enough, according to the project architect.

The housing developer and architect preferred more flexibility in how to address the required setbacks for the residential component of the building, including bringing the residential sections to the property line, provided compensating space is provided with decks or more flexible requirements about the location of setbacks.

The project combines Type I construction below the deck on which the residential section sits, and Type V construction for the rental units. This change in construction type cause some design and construction coordination problems (e.g., elevator shaft alignments).

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Development Costs. The City provided the platform for the housing, which is built on air rights. The City funded the parking structure, the retail, and certain design amenities for the housing which were not covered by federal housing resources. Project costs were, therefore, significantly above average for this product type. The apartments and the parking allocated to the apartments were financed by the HUD Section 202 program, which includes a commitment of project-based Section 8 certificates for 40 years. The retail and remaining parking components were financed by the City of Beverly Hills through tax exempt bonds, a Community Development Block Grant contribution and other City funds. Project costs were approximately \$29.4 million, or \$224 per square foot, including \$6.0 million for land, \$1.2 million for site improvements, \$13.3 million for construction and \$8.9 million for soft costs. The sources of project financing are as follows:

\$ 6.0 million	City funded land costs
\$ 1.2 million	CDBG funds for site clearance, excavation, utilities, some pre-development
\$ 7.3 million	HUD 202 financing
\$ 1.9 million	City funded housing amenities
\$13.0 million	City funded construction costs, including retail and parking, \$1.0 million of which was funded by a cash contribution from the City.

The City of Beverly Hills owns the land and provided the residential developer/owner with an air rights lease for 55 years in order to accommodate the housing. The City of Beverly Hills contributed additional funds to the construction of the housing in order to provide amenities that were not eligible for funding under the HUD program, including the brick facade, bay windows and additional landscaping.

Although the same architect was used by the City for the non-residential components, and by Menorah Housing for the apartments, each developer used a different construction contractor. This caused more coordination and oversight issues than a project of this scale and complexity would ordinarily present.

Marketing and Lease-up Experience. The residential component of the project was immediately leased and remains full, with a years-long waiting list, due to significant unmet demand for subsidized housing on the Westside. The Mrs. Gooch's health food market lease commenced in October, 1987. It has a 15-year term with a 10-year option, followed by a 5-year option. Rent is adjusted every 30 months based on CPI with a ceiling of 6%. Current base rent is \$31,965/month, inclusive of the use of the parking spaces. The City receives base rent or 2% of gross retail sales, whichever is greater.

The residential developer believes that the combination of the region's severe shortage of housing for very low-income seniors and disabled persons, and the proximity of the grocery, made the novel situation of living above the commercial uses acceptable to tenants.

Project Financing and Financing Issues. The residential component and its related parking was completely financed by the HUD 202 Program, and HUD treated the project as though the other components did not exist.

The whole project was built at one time. The City paid for the public parking and the retail space through tax exempt bond financing, in the form of certificates of participation, totaling approximately \$21 million.

F. CASE STUDY #5: WILSHIRE PROMENADE

General Description of the Project. This nearly 120,000 square foot mixed-use project on a 1.28-acre site, is located in the City of Fullerton, near the courts, Cal State Fullerton, Fullerton City College, an AMTRAK station and a hospital.

The Project Development Team. The building was developed by The Howard Platz Group in 1990/91. The architect was McClaren Vasquez & Partners. The construction lender was the National Bank of Canada.

Density and Building Height. The floor area ratio is 1.7 and the residential density is 82 units per acre. Portions of the building are two, three and four stories in height.

Land Use Mix. This project consists of 128 market-rate apartments over 13,400 square feet of commercial space and a public/private parking structure.

- *Retail.* The city insisted on retail, not office, uses for the project, which ultimately proved to be a problem for the developer.
- *Residential.* The City considered imposing a 20% restriction for affordable housing, but decided not to after realizing that "affordable" rents were close to market rents in this area.

Wilshire Promenade
NWC of Malden
and Wilshire
Fullerton, CA

Front view,
looking west



Front and side view,
looking west



Front view,
looking northeast

Wilshire Promenade
NWC of Malden
and Wilshire
Fullerton, CA

Front view,
looking east



Side view,
looking north



Side and rear view,
looking southeast



Parking Requirements. The project includes 276 parking spaces on two levels, one of which is below grade. The surface parking level is intended to accommodate the needs of the retail uses and the public. Parking for the residents is provided on the below-grade level.

All parking requirements for each individual use had to be met on site. The City entered into a shared parking agreement with the developer to use the City spaces to help meet the commercial parking requirement for the project.

Entitlements Required. The City applied approval processes required for each separate use, because it had no procedure for a mixed-use project. The City considered imposing a requirement for 20% rent-restricted housing during the approval process, but the requirement was never approved. The zoning was amended in order to permit residential above the retail. The project took about 4 months to get approvals.

The City's redevelopment agency was very cooperative and receptive to the project, according to the developer. The agency wrote down the land costs in exchange for building the public parking lot in the rear part of the project. The City had not originally thought of the site for a mixed-use project, but the area had mixed zoning and a mixed-use project seemed appropriate.

Design Issues. The City was very eager to see the project built, but there was tension over project design issues. According to the developer, design requirements were imposed without an adequate understanding of their cost implications.

The City wanted the project to have a brick theme to match the historical brick building next door and other architecture in the area. A mini brick (3/8ths inch thick) instead of a full brick was selected by the developer in order to save costs. It was used strategically to again help reduce costs instead of applying it on all exterior surfaces. The City eventually agreed to this approach.

Given the density of 81 units/acre, there was limited ability to create a sense of depth and texture along the facade of the project. Visual relief was attempted by varying the color of the brick courses on the first level. Flat roofs were used because of the height limit.

Development Costs. The City contributed the land to the development in exchange for the replacement of the pre-existing public parking lot on the ground floor of the project. Total project costs were approximately \$18.0 million dollars or \$150 per square foot not including land costs. Approximately \$10.8 million was spent on construction.

Marketing and Lease-up Experience. Two months after completion of construction, the housing was fully leased. The retail space had never been fully leased. At the time the case study was prepared, the only retail tenant was a small convenience market of approximately 1,000 to 1,500 square feet. A law office and mini-storage facility was scheduled to occupy a portion of the available retail space, though this was contrary to the City's desire for retail tenants.

- *Market Context.* The Wilshire frontage is secondary frontage. It is not a major street and does not have a destination orientation. There is limited exposure to cars and foot traffic. Harbor Boulevard is around the corner, which is a main street in town. This project was faced with trying to change the retail orientation in the area from "used" stores and antique stores to a more contemporary, higher level, with higher rents. It was also the only new project in an area, which, otherwise, remained unchanged. The City was planning a new museum a few blocks away and the developer thought, at the time, that the retail uses in his project could tie into the museum project, but the museum was never built.
- *Retail.* The retail space did not lease initially because the market dropped out, according to the developer. The project came on-line at the beginning of the 1991-93 state recession. Located in an older part of town, the project was targeted to existing tenants who would relocate from within the area. There was a neighborhood orientation in the area. Bigger chains, like Blockbuster, would not consider locating here. The location was better suited to smaller video store or cafe type retailers. Many prospective tenants reserved space and had interest, but fell out in the end because of the economy.

A neighborhood market was the only tenant secured by the developer. The spaces were designed for 1,200 to 1,500 square foot, mom and pop stores. a 7,500 foot tenant would have been the largest tenant that could have been accommodated. The developer believes that small, "folksy" retail tenants are ideal for mixed-use development, because the noise level is lower. This is important when there are residential units above. More intense retail uses may result in too much noise and traffic for prospective residential tenants, particularly condo owners, the developer believes.

The developer tried to entice existing tenants in the area to the project, even though project rents were higher than existing rents for older buildings. The developer did not consider the asking rent to be a prohibitive factor in the leasing program. The

problem with leasing was perceived to be more a matter of deteriorating economic and market conditions.

- *Housing.* The housing was very successful. It was 100% leased within two months of completion, and remains about 98% occupied today. Cal State Fullerton took 15 units in order to help attract new faculty to the campus by providing housing close by. Many nurses chose to live in the building, reportedly because they valued the on-site security system.

Project Financing and Financing Issues. The lender ended up taking the project back due to the lack of revenue from the retail space and insufficient equity to carry the project through the extended lease-up period. Without the retail income there was no money for tenant improvements and insufficient cash flow to support a permanent loan.

The lender believes the site is much better suited to residential than retail use, and this has been an inherent problem with the project -- it tried to create a retail market where none existed. If the project were to be financed today, the bank would require substantial pre-leasing of the retail space prior to the start of construction and the inclusion of a financial equity partner.

In general the lender reported that although there is somewhat more acceptance of mixed-use projects among his colleagues today, they remain very cautious about lending for this product type. It is still considered untested on the West Coast, and especially in Orange County. Nevertheless, the lender has no specific underwriting policy regarding mixed-use. If and when the lender resumes mixed-use financing, it is likely that they would underwrite these project more like retail projects than apartments.